

CHAPTER 1. OVERVIEW

Interior's Mission

The U.S. Department of the Interior protects and manages the Nation's natural resources and cultural heritage; provides scientific and other information about those resources; and honors its special trust responsibilities or special commitments to American Indians, Alaska Natives and affiliated Island Communities.

Executive Summary

The Department of the Interior has many responsibilities, which have evolved throughout its history. They range from the protection of unique and special areas to providing access for production of one-quarter of the Nation's energy supply and to the provision of education to 48,000 American Indian students.

The Secretary has established a path of management excellence to fulfill these responsibilities. An essential element of management excellence is a strong financial management program to ensure accountability in the services that Interior provides. The FY 2002 audit results caused concern that the Department could (1) meet accelerated deadlines and other requirements; (2) continue to obtain unqualified audit opinions without the recurrence of material weaknesses and reportable conditions; and (3) position itself for the implementation of a new, integrated financial and business management system.

In FY 2003, Interior aggressively initiated the first phase of a transformation process designed to significantly change financial management in the Department. During FY 2003, Interior focused on making progress in key areas such as:

- Revising policies and processes to improve financial operations, particularly related to property, eliminations, environmental liabilities, and the US Geologic Survey;
- Reducing vulnerability to unauthorized access, use, or loss of sensitive information in Interior's financial management systems;
- Implementing revised financial guidance and processes to meet accelerated deadlines for financial reporting; and
- Addressing all the internal control findings and non-compliance issues reported in the FY 2002 audit reports.

Interior also established metrics to measure its progress in these areas and is in the midst of developing a workforce plan to address financial management structures, recruitment, retention, and training needs.

Interior has made progress in the areas identified in the Transformation Plan. Preliminary feedback indicate that these efforts have established a foundation for achieving unqualified audit opinions in an accelerated timeframe. Nonetheless, the long-term vigor of Interior's financial and business management systems also hinges on the implementation of the Financial and Business Management System (FBMS) proposed in the President's FY 2004 budget.

Interior's Mission

The American people have had a long-term investment in the resources managed by the Department of the Interior. From its establishment in 1849, Interior has managed many varied programs, including Indian affairs, administering land grants, improving historic western emigrant routes, maintaining boundaries, administering pension laws, issuing patents, conducting the census, and conducting research on the geological resources of the land. Following the conservation movement at the beginning of the 20th century, however, Interior focused much of its attention on the preservation, management, understanding, and use of natural and cultural resources.

Charged with its extensive mission, Interior's programs balance the protection of the Nation's investment in its natural and cultural resources with the access to public lands for recreation and resource use. Partnering with communities, Interior provides law enforcement, firefighting, and the generation of science, in addition to meeting its trust responsibilities to Native Americans. For the first time this mission has been delineated in a department-level strategic plan, which organizes goals and performance measures into four mission areas: (1) resource use, (2) resource protection, (3) recreation, and (4) serving communities.

Interior's 70,000 employees manage one in every five acres of the United States, working in over 2,400 locations to fulfill its mission. In its work Interior operates over 800 dams and irrigation facilities and some 34,000 other structures. Interior also generates more than \$10 billion in revenues, much of which is paid to state, Indian, county, local, and other federal agency accounts.

Achieving Management Excellence

The Secretary's vision for management excellence provides a framework for improving program efficiency. The vision for management excellence is based upon the following principles:

- *Customer Value* - Ensuring that all of our activities add value and ensure the effective use of resources.
- *Accountability* - Establishing clear performance measures and holding our managers and employees accountable for results.
- *Modernization* - Using technology to work smarter and provide single points of access to our services.
- *Integration* - Identifying opportunities to avoid duplication and achieve economies to enhance customer service and efficiency.

A key to management excellence is the accelerated implementation of the President's Management Agenda, which establishes five governmentwide goals for delivering results that matter to the American people. One of the goals, improved financial performance, would result in the production of accurate, timely, and useful information to support operating, budget, policy, and the reduction of erroneous payments. Interior has improved its financial performance as indicated by improved scores in the Office of Management and Budget Scorecard.

Interior recognizes that the bedrock of management excellence is world-class financial management. World-class financial management assures Congress and the public that funds provided by the American people to Interior's programs are used as efficiently and productively as possible.

Transformation of Financial Management

Interior's Transformation Vision

Interior will create a system which links planning and budget with performance results; performs efficient, reliable transaction processing; and focuses on analyses of data to provide managers and employees with timely, reliable information for delivering service to the public.

The FY 2002 audit results clearly indicated that Interior had to significantly overhaul its financial management approach. The Department has worked diligently over the years to provide high-quality financial and performance data to managers and to report accurate information to external parties. As a result of extraordinary efforts by Interior employees over the past six years, Interior has received an unqualified or "clean" audit opinion on the consolidated financial statements published in the Department's Annual Report on Performance and Accountability. The Department has also been awarded the Association of Government Accountants Certificate of Excellence in Reporting (CEAR) for the past three years.

While Interior obtained its sixth unqualified audit opinion on the consolidated financial statements in FY 2002, the audit results indicated the presence of repeat material weaknesses. In FY 2001, one reporting entity received a disclaimer, and one did not obtain an opinion. In FY 2002, one reporting entity received a disclaimer, two received qualifications, and one was unable to obtain an opinion. Audit reports from the external auditors have identified a number of internal control issues, many of which are considered material weaknesses and most were carried over from prior years.

Governmentwide, new requirements for much more timely information have been established by OMB, including quarterly financial statements and annual financial statements with accompanying audits within 45 days of the end of the fiscal year. Interior determined that completing the annual financial statements and audit by November 15, 2003—as well as ongoing quarterly statements—would not be possible for Interior using its existing processes because the inability to record transactions as they occur means that the information needed to prepare timely financial statements was simply not available. Moreover,

processes needed to be standardized and improved to facilitate movement to the new core financial system included in the Financial and Business Management System proposed in the President's FY 2004 budget.

In addition, current practices and systems do not provide Interior managers and employees with timely, reliable management information related to budget execution, cost of doing business, and performance to manage their work to provide the best value for American taxpayers. Consistent, timely information is not currently available in the Department, making it difficult to discuss program performance and program costs fully within Interior, with OMB and Congress, and with citizens and partners.

The need to correct repeat material weaknesses, coupled with the accelerated closing schedule for the FY 2003 Annual Report on Performance and Accountability, pointed to the need for a financial management transformation.

In FY 2003, Interior aggressively initiated the first phase of a transformation process designed to significantly change financial management in the Department. During FY 2003, Interior focused on making progress in key areas such as:

- Revising policies and processes to improve financial operations, particularly related to property, eliminations, environmental liabilities, and the US Geologic Survey.
- Reducing vulnerability to unauthorized access, use, or loss of sensitive information in Interior's financial management systems.
- Implementing revised financial guidance and processes to meet accelerated deadlines for financial reporting.
- Addressing all the internal control findings and non-compliance issues reported in the FY 2002 audit reports.

Interior has established performance metrics to measure progress in these areas and is currently developing a workforce plan to address financial management structures, recruitment, retention, and training needs.

Interior has made progress in all the areas identified in the Transformation Plan. For example:

- Emphasis by a cross-departmental workgroup on eliminations reduced the balance from \$1.3 billion (January 2003) to \$135 million (June 2003).
- Deadlines for quarterly financial statements have been met.
- The Department is on track to have its audit and report completed by November 15, 2003.

Interior, with its very large diverse portfolio, has focused efforts over the past few years on correcting material weaknesses reported under the Financial Managers Financial Integrity Act (FMFIA). The Department has: reduced the number of FMFIA material weaknesses

from 170 to 17; and reduced the number of material systems non-compliance issues from 64 to 1. Interior continues to focus efforts on correcting material weaknesses and non-compliance issues reported by its financial statement auditors; however, the Department continues to be challenged by the remaining FMFIA material weaknesses, including challenges in managing Indian Trust Funds and inadequate computer security. While these and other issues are being addressed with extensive resource commitments, the issues are complex and will require several years to resolve.

Nonetheless, a key to the long-term vigor of Interior's financial and business management systems lie with the implementation of the Financial and Business Management System (FBMS) proposed in the President's FY 2004 budget. Interior has continued, as described in Chapter 4, to prepare for the implementation of the FBMS beginning in FY 2004. Key departmental financial management systems that are critical to the sound management of Interior's diverse, geographically diffuse operations and programs are in urgent need of replacement. Many systems in Interior's eight major bureaus are not integrated, which makes it difficult to maintain the quality of financial information. The systems do not have the necessary security capabilities to facilitate more open access via the Internet. Vendors currently supporting these systems will not support the aging software in the future. Additional demands are being placed on these systems to comply with federal financial accounting standards and requirements to produce audited financial statements. The need to provide up-to-date financial information to managers for decision-making purposes and the need to prepare quarterly financial statements for the Office of Management and Budget and Interior management are further stretching the ability of existing financial management systems to respond to departmental needs. Additionally, major changes to financial management systems will be necessary to comply with new security, privacy, and electronic government requirements mandated by the Government Paperwork Elimination Act (GPEA).

Collaborative Working Relationships

Interior recognizes that to improve financial management and effectively re-engineer and streamline financial management activities and processes, collaborative working relationships must be established between program and financial managers. To that end, the Secretary has set in motion several reforms that will help to ensure integrated planning, leadership, and assessment of the Department's programs. These include:

Effective Leadership and Management Oversight. The Department has established a Management Excellence Council, chaired by the Secretary and including the Deputy Secretary, Assistant Secretaries, and bureau heads. The Council provides leadership, direction, and accountability to implement the Administration's goals and provides overall direction and oversight of the Department's management reform activities. To support the Management Excellence Council, a set of senior-level teams have been established that are linked to the five governmentwide initiatives. These cross-departmental teams, chaired by the Assistant Secretary - Policy, Management and Budget, her Deputies, or the Chief Information Officer, are ensuring that all departmental management reform efforts are collaborative and coordinated. *Exhibit 1-1* illustrates Interior's new management oversight structure.

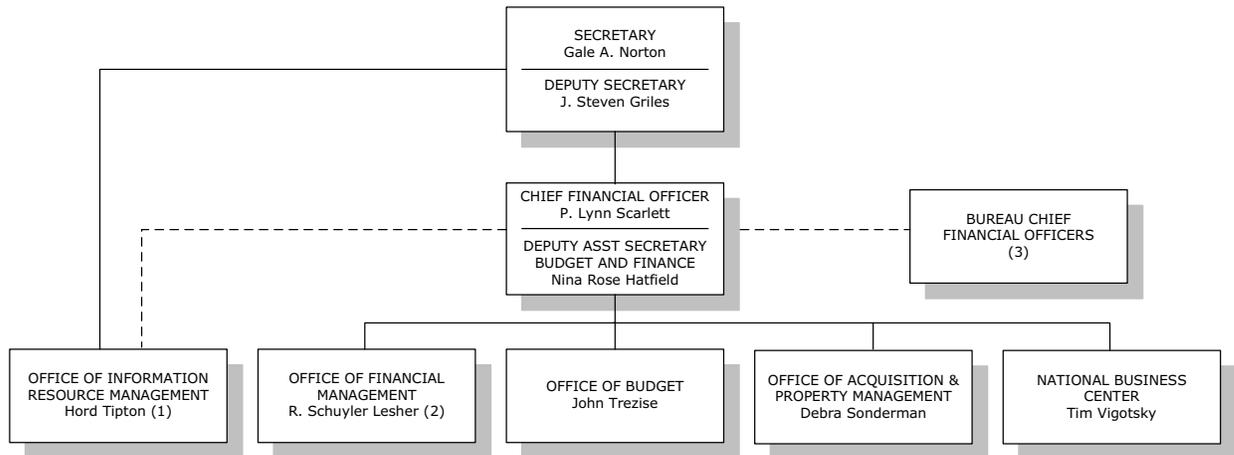
Exhibit 1-1



In addition to the leadership and oversight function, Interior has a sound Chief Financial Officer (CFO) organization that is capable of successfully meeting the current and future challenges in federal financial management. The CFO organization (*Exhibit 1-2*) is headed by the Assistant Secretary - Policy, Management and Budget who is also the Department's CFO. The Department CFO provides leadership in program planning, budget, and policy matters; oversees compliance with environmental statutes and standards; develops and maintains internal administrative policy, standards, objectives, and procedures for use throughout the Department; oversees the administrative appeals process; and undertakes special analytical and administrative support services for the Office of the Secretary. In addition, the Department's CFO leads the Interior CFO Council in addressing emerging financial management issues and fulfilling the financial management vision.

Exhibit 1-2

**Department of the Interior
Chief Financial Officer
Organization**



(1) Chief Information Officer - Reports to the Secretary and receives administrative guidance from the Assistant Secretary - Policy, Management and Budget

(2) Deputy Chief Financial Officer and Director of Financial Management

(3) Assistant/Associate Director - Finance and Administration

Administrative Partnerships. The Department has established a number of partnerships to improve coordination within its administrative communities and to develop solutions to specific issues. These include:

- *Finance Officers' Partnership (FOP).* The FOP was established to enable the Department to work better and reduce costs through the collaborative planning, development, and implementation of improved financial management policies and practices. The FOP has established subcommittees or working groups to focus on important financial management issues that confront the Department, including:
 - *Software Advisory Board (SAB)* provides analytical and technical support to the FOP in the areas of FFS software design, development, and implementation.
 - *Standard Accounting Classification Advisory Team (SACAT)* establishes and maintains a common approach among the bureaus for addressing accounting classification issues including Standard General Ledger (SGL) maintenance, accounting policy and procedures, internal controls, and reporting requirements.
 - *Financial Statements Guidance Team (FSGT)* coordinates bureau and departmental preparation of financial statements.
 - *Operations Accounting Group (OAG)* coordinates efforts of bureau finance offices and the Department to improve the effectiveness and efficiency of financial management procedures and practices.
 - *Budget Execution Reporting Working Group (BERWG)* coordinates and improves budget execution processes and reporting practices.

- *Cost Accounting Work Group (CAWG)* facilitates implementation of FASAB Standard No. 4, Managerial Cost Accounting.

- *Accounting for Eliminations Team (AET)* addresses issues related to financial statement treatment of interbureau transactions.

- *Property Management Partnership (PMP)*. The PMP, comprised of personal, real, and museum property management officials from the bureaus and the Department, was formed in FY 1997 to increase productivity, promote multi-bureau initiatives, and avoid the costly development or modification of duplicative, independent, stand-alone property systems.
- *Acquisition Managers' Partnership (AMP)*. The AMP, comprised of senior procurement managers from Interior's bureaus, was formed in FY 1998 to serve as a forum to work cooperatively and continuously to improve the management, efficiency, and effectiveness of procurement services in support of Interior's mission.
- *Interior Federal Assistance Working Group (IFAWG)*. The IFAWG was established to provide a focal point for coordinated federal assistance activities of Interior bureaus and offices. The IFAWG provides an opportunity for representatives from bureaus and offices to provide input into the formulation and implementation of federal assistance policies.

In this plan, Interior has outlined its objectives, its accomplishments in achieving those objectives, and its plans for the future. The plan includes the goals, strategies, and performance measures for improving financial reporting, activities to maintain and improve financial management systems, improving financial operations, initiatives to improve grants management, and initiatives associated with enhancing the Department's human capital investment.